

MEMORANDUM FOR THE RECORD:

SUBJECT: Senator Stevens' Bill

Andy Ruddock called at noon, Tuesday 12 March, and had the following comments about the Stevens bill. He said right up front his information was third-hand but came to him from a member of the Executive Board of the National Association of Postal Supervisors who had talked with postal workers from Alaska who were quoting Senator Stevens.

"Senator Stevens withdrew his bill because he was discouraged and angry. He put out his bill for feelers before actually introducing it but got no support, only gripes and complaints. Stevens says he might reintroduce a supplemental retirement bill next year and let it be decided during the election year. The unions strongly support this. This means the current temporary retirement bill for employees will have to be extended one year. Stevens believes the election year will not be like this year when the Administration and the Hill are trying to grind everyone down on the budget deficit question. OPM is taking some joy from Steven's withdrawal of his bill and seem to think they can make even further proposed reductions."

Andy says OPM might be playing into Stevens' hands and this would be a chance to gain some support, if and when he introduces his bill. Earlier on, Stevens had said we might be glad to see his bill once we saw the OPM version. Andy says it is his feeling that Stevens purposely passed the ball to Congressman Ford with the idea that they can take pot shots at Ford for awhile instead of him."

STAT

ATTACH         

Summary of the Proposed Civil Service  
Pension Reform Act of 1985

[A Bill to amend title 5, U.S. Code, to establish a new retirement and disability plan for federal employees, postal employees, and members of Congress, and for other purposes.]

Purposes

- To provide federal employees with a retirement plan comparable to good private sections plans; promote financial stability and flexibility for the future of each federal employee; ensure a fully funded and financially sound federal government retirement plan; enhance portability of retirement assets between federal jobs and jobs outside the federal government; increase options of each federal employee with respect to retirement plans; encourage federal employees to increase personal savings; include federal employees in the investment decision-making process with respect to the assets of the retirement system; and extend financial protection from disability to additional federal employees and increase such protection for eligible federal employees.

## BASIC PLAN

### Entitlement

- Age 55 w/30 years service - immediate annuity  
(See reduction for early retirement below)
- Age 62 w/10 years service - immediate annuity
- Age 55 w/25 years service  
as law enforcement officers,  
firefighters or  
air traffic controllers - immediate annuity
- Any age w/25 years service or not less than age 50 w/20  
years service if separated involuntary under certain  
circumstances - immediate annuity  
(See reduction for early retirement below)

### Deferred Retirement

- Under age 62 and separates after 10 years  
civilian service-entitled annuity when reaches age 62

### Computation of Annuity

- Except for reduction for early retirement (see Reduction  
for Early Retirement below), the annuity shall be equal to  
the product of 0.85 of average pay (hi-5) multiplied by the  
number of total years of service.

- An annuity supplement equal to the amount of social security benefits paid at age 62 will be paid to law enforcement officer, fire fighter and air traffic controller annuitants under age 62 until they reach age 62 and qualify for Social Security.

#### Reduction for Early Retirement

- Annuity reduced by one-sixth of one percent for each full month under age 62 on date of separation except law enforcement officers, fire fighters or air traffic controllers (these may retire at age 55 w/25 years with no reduction in annuity) This formula is equivalent to a reduction of 2% each year.

#### Reduction for Survivor Annuities

- Annuity reduction to provide survivor annuity to spouse of a married participant unless both jointly waive spouse's right to survivor annuity.
- Annuity reduction when participant has a former spouse who is entitled to survivor annuity.

#### Funding

- Employing Agency shall contribute an amount equal to the normal cost of an annuity for each participant.

### Survivor Benefits

- Provides payment of death benefits from basic plan to retiree's survivor unless the surviving spouse waived a survivor annuity.
- Survivor age 60 or over with no children under age 16 - 50% of the unreduced annuity (except for early retirement reduction) plus any social security payable.
- Survivor under age 60 with no children of the retiree under age 16 gets full annuity that was payable to the retiree (after reductions for early retirement and survivor benefits) until age 60, when they get 50% of the covered annuity after early retirement reductions plus any social security payable.
- Survivor under age 60 with children of the retiree under age 16 gets 50% of the unreduced annuity plus social security payable.
- Provide for survivor benefits from the Thrift Savings Plan.

### Cost-of-living Adjustments

- Annual adjustment to basic pension of the consumer price index minus 2 percentage points. Adjustments made in January and based on the change from September to September.

### Transition Provisions

- CSRS participants may elect to transfer to CSPA, or, begin participation in CSPA and retain accrued credit for entitlements to benefits under CSRS for service subject to that system.

### Disability Benefits

- Disability benefits available to participants who have at least 18 months service.
- Entitlements to receive benefits while under age 62.
- At age 62, annuity payable under the basic plan provision based on at least 10 years actual service plus projected service through age 62.
- If eligible for Social Security, or ineligible for social security only as a result of insufficient quarters of coverage, 60 percent of the high-five salary minus 100 percent of the social security benefit.
- If ineligible for social security, 60 percent of the high-five salary for the first year after which, 20 percent of the high-five or the accrued benefit based on projected service through age 62, whichever is lower.

Conforming Provisions for Other Retirement Systems

- ° Current CIARDS unaffected. Would require legislation to establish supplemental program for future CIARDS participants hired after 1 January 1984. Excludes employees from participation in both the CSPS and CIARDS.

THRIFT SAVINGS PLAN

Contributions

- ° In any fiscal year, participant may contribute any amount not exceeding 10 percent of annual rate of basic pay.
- ° Employing agency shall contribute an amount equal to twice such portion of the amount of the participant contribution as does not exceed 4 percent of gross pay.
- ° Amounts of participants' thrift savings fund contributions and employing agency's matching contributions shall not be included in gross income of participant for purposes of the Internal Revenue Code of 1954.

Vesting

- ° Participants immediately vest in their contributions and their earnings. Beginning at two years of service, participants vest in 25 percent of the employer's contributions. This increases 25 percent each additional

year up to five years and beyond, when the entire share contributed by the employer, plus interest, is vested. Participants who die while employed immediately vest in 100 percent of employer's contribution and earnings on it.

#### Entitlements

- ° Permits participants who separate from government employment, either entitled or not entitled to an immediate annuity, to elect method of receiving money credited to their accounts.

#### Annuities

- ° A thrift investment board will prescribe methods of payment the amounts of which will be determined in accordance with generally accepted actuarial principles.

#### Civil Service Thrift Investment Board

- ° Established as an independent establishment in the Executive Branch of the Federal Government;
- ° Composed of 6 members appointed by the President, by and with the advise and consent of the Senate;
- ° An Executive Director appointed by the majority of the members;



- ° Board shall establish policy, prescribe regulations and administer the Thrift Savings Fund.

Powers of the Executive Director

- ° -Among others-..."obtain from any Federal Agency, including any independent establishment or instrumental<sup>ity</sup> of the United States, advice, information, estimates, statistics, and such other assistance as the Executive Director considers necessary to carry out the provisions..."

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VERSUS AGENCY RETIREMENT REQUIREMENTS

BUDGET	PROPOSAL	AGENCY REQUIREMENT	COMMENTS
	<p><u>REDUCE ANNUITIES OF EMPLOYEES RETIRING EARLY</u></p> <p>Would reduce annuities by 5% for each year under age 60 for CIARDS and under age 65 for CSRS</p> <p>Would be phased in over 10 year period as follows:</p> <p>Penalty for CIARDS is product of :</p> <p><math>(50 - \text{Age @ Enactment}) \times \frac{1}{2}\% \times (60 - \text{Age @ Retirement})</math></p> <p>Penalty for CSRS is product of :</p> <p><math>(55 - \text{Age @ Enactment}) \times \frac{1}{2}\% \times (65 - \text{Age @ Retirement})</math></p>	<p>Early retirement eligibility for employees with qualifying dangerous or stressful service time, without reduction of benefits. (Age 50 with 20 years of service.)</p> <p>Also retain management flexibility for those who do not qualify for CIARDS benefits and allow them to retire at age 55 with 30 years service with no reduction in benefits.</p>	<p><i>budget</i></p> <p>The administration proposal provides strong incentive for employee to postpone retirement beyond first opportunity. It encourages working to age 60 in case of CIARDS participant; or age 65 in case of CSRS participant. Would adversely alter makeup of Agency workforce. Completely counter to purpose for which CIARDS was enacted. Provides no relief for treatment of operations officers who are no longer effective due to age and/or cover exposure. Detrimental to operational effectiveness and ability to recruit personnel for such activity. Extends average age of non-operational employees and interferes with management flexibility. Hampers Director's authority for involuntary separations.</p>

VIRUSUS AGENCY RETIREMENT REQUIREMENTS

BUDGET	PROPOSAL	AGENCY REQUIREMENT	COMMENTS
<p>CHANGE BASE ON WHICH RETIREMENT BENEFITS COMPUTED FROM HIGH 3 YEARS TO HIGH 5 YEARS (Effective in 3 years with current eligibles exempt)</p>	<p>Change from High 3 to High 5 would produce approximately 10 % reduction in amount of annuity. <i>Perception of reduced loss</i></p>	<p>Agency retirement system must function as a management tool to structure work force which is responsive to mission. As such, Agency retirement system must include incentives for early voluntary retirement in order to maintain a young and vigorous work force. This requirement is greatest with respect to operations and operations support personnel, but is also applicable to a lesser degree with respect to non-operational personnel.</p>	<p>This proposal would produce a loss of approximately 1% of annuity for each 1,000 hours of sick leave accumulated at retirement. Could also result in some increased use of sick leave during last years of an employee's career. Initially, could influence some eligible employees to retire sooner than they had planned in order to avoid penalty.</p>
<p>LIMIT COST-OF-LIVING ADJUSTMENTS (COLA's)</p>	<ul style="list-style-type: none"> <li>• Eliminate Cola due in January 1986</li> <li>• For all future COLA's, limit to the lower of the CPI or increase in general schedule pay. Full indexing on only the first \$10,000 of annuity with 55% indexing on the remainder.</li> </ul>	<p>Reduces incentive to retire early. Major effect is not at time of retirement but over life of annuity. Persons contemplating early retirement should have substantial savings or be prepared to find post-retirement employment to supplement annuity.</p>	<p>Cumulative effect of all three proposals has significant impact on attempt to maintain young and vigorous work force.</p>

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 Senator Stevens' Proposed Civil Service Pension System (CSPS) VS CIA's Retirement Requirements  
Primary Provisions

Sen. Stevens Proposal

1. Stated Purposes of the CSPS
  - (1) Provide fed employees with a retirement benefits plan which is comparable to good private sector retirement benefits plans;
  - (2) To provide financial stability & flexibility for the future of each federal employee;
  - (3) To ensure a fully funded & financially sound Federal retirement benefit plan;
  - (4) To enhance portability of retirement assets between Federal jobs & jobs outside the Federal Government
  - (5) To increase the options of each Federal employee with respect to retirement benefit plans;
  - (6) To encourage Federal employees to increase personal savings;
  - (7) To include Federal employees in the investment decision making process with respect to the assets of the retirement system;
  - (8) To extend financial protection from disability to additional Federal employees and to increase such protection for eligible Federal employees.

CIA's Retirement System Requirements

- ° Provide CIA management a retirement system with provisions that serve as work-force management tools to support achievement of CIA mission-related objectives through;
  - (a) Maintenance of a young and vigorous work-force
  - (b) Contributing, as part of the total employee compensation package, to our efforts to recruit and retain employees for a full career.
  - (c) Retention of the Director's management flexibility as now exists in the CIARDS and extend this flexibility to all CIA employees.
  - (d) Assure protection of the identities & security of all CIA employees.
  - (e) Specifically reward overseas service, especially a career with extensive service abroad.

Comments

- ° The purpose, design and provisions of Sen. Stevens' plan are primarily focussed on reducing government costs of retirement. It places heavy emphasis on benefit levels with little concern for utility of the plan as an effective work-force management tool. An anomalous effect of the plan would on the one hand encourage employees to retire late in life (65) in order to draw full benefits but on the other "enhance portability of retirement assets between federal jobs outside of the Federal Government" and encourage turnover of young & mid-level employees short of a full career.
- ° CIA must have a system that is fully compatible with CIA's missions and need to recruit and maintain the type and quality of work-force to meet organizational objectives.
- ° The Stevens' plan as proposed would be incompatible and destructive in this regard.

2. Employees to be Covered Under the  
New Civil Service Pension System (CSPS)

- ° Federal employees hired on or after 1 Jan 84 and subject to social security, some exclusions (justices, judges, certain covert & legislative Branch employees & student employees). Provides special provisions for law enforcement & fire fighters. Would include CIA employees under regular CSPS provisions.
- ° Optional participation offered to pre 1984 employees now under regular CSRS.

1. Employees to be Covered  
Under Agency System

- ° A single CIA managed plan covering all pre-1984 and post-1984 CIA employees with sets of provisions covering each category (i.e. CIARDS & Non-CIARDS)
- ° If above not attainable now, settle for a single plan under CIA management covering all employees (i.e. CIARDS & Non-CIARDS) hired on or after 1 Jan 84 with sets of provisions covering each category.

- ° The Stevens' plan would put all new CIA employees under the OPM Administered Federal CSPS system and subject to provisions not compatible with CIA's system requirements as regards early retirement, DCI management requisites, security protection of identities of sensitive employees.

[The proposed CSPS consists of civil service & benefits (basic plan) tax-deferred investment options & social security]

[A proposed single CIA Retirement & Disability System Administered Under DCI Authority]

Basic Plan

Basic Plan

Optional Retirement Eligibility

- ° Age 55 w/30 years service
- ° Age 62 w/10 years service (Benefits reduced 1/6 th of 1% for each full month under age 62.
- ° Age 55 w/25 years service (No reduction for law enforcement officers, fire fighters, air traffic controllers

- ° Age 55 w/30 years service
- ° Age 60 w/20 years service
- ° Age 62 w/5 years service (For all regular members) (Non-reduced benefits)
- ° Age 50 w/20 years service (For special participant members) (Non-reduced benefits)

- ° The optional retirement eligibility provisions as proposed for a single CIA retirement & disability system would help the Agency maintain a young & vigorous work force required by the nature of the intelligence mission & retain the Director's management flexibility as now ~~lists~~ <sup>exists</sup> under CIARDS.

- ° Application of CSRS accrued schedule within CIA would add 12 years to what is now CIARDS retirement w/o reduction & 7 years to what is now CSRS. In effect, the average retirement ages for both clandestine operational and other categories of personnel would raise to in excess of age 62 from the current ages 53.5 & 57.5 years respectively.

Accrual Rate

- ° Product of 0.85 percent of average pay (Hi-5 consecutive years) multiplied by the number of total years of service. Annuity supplemental provided for under Age 62 for law enforcement officer, fire fighters & air traffic controllers.

- ° 2 1/2% for all qualifying years of service by both members & special participant members
- ° 2% for all other years of service by special participant members
- ° Current CSRS formula (1.5%, 1.75%, 2%) for all other years of service by members.

- ° CSRS proposed accrued rate of 0.85 would produce less than half the replacement income provided for in the proposed single CIA Retirement System

- ° The proposed single CIA Retirement System would specifically reward all employees for dangerous & stressful service especially overseas service.

COLA

- ° Annual consumer price index increase minus 2 percentage points.

- ° Although future COLAs under CSPS would be less, the item not considered detrimental to managerial aims.
- ° May become negative factor for employee toward end of career.

Mandatory Retirement	<ul style="list-style-type: none"> <li>◦ No mandatory retirement</li> </ul>	<ul style="list-style-type: none"> <li>◦ Age 60-special participant members</li> <li>◦ Age 65-SIS-4 &amp; above</li> <li>◦ None-regular members</li> </ul>	<ul style="list-style-type: none"> <li>◦ Mandatory retirement provision of age 60 for special participant members, as provided in the proposed single CIA Retirement System, is key to an orderly flow of clandestine operational personnel through their careers to retirement.</li> <li>◦ Allows management to project future staffing needs, promotion &amp; assignment opportunities &amp; timely personnel selection &amp; <del>2018/4</del> progression through the system.</li> <li>◦ Without the mandatory age provisions, the type of managerial planning would be greatly weakened.</li> </ul>
Involuntary Retirement	<ul style="list-style-type: none"> <li>◦ Any age w/25 years service</li> <li>◦ At least age 50 w/20 years (Benefits reduced 1/6 th of 1% for each full month under 62.</li> </ul>	<ul style="list-style-type: none"> <li>◦ Any age w/25 years service at least age 50 w/20 years service (Benefits reduced 2% for each year under age 55 for regular members.) (Benefits not reduced for special participant members)</li> </ul>	
Annuity Computation Base	<ul style="list-style-type: none"> <li>◦ High-5 average salary</li> </ul>	<p>Hi-5 average salary (Assumes similar reductions in Benefits for all government employees)</p>	
Employee CONTRIBUTION	<ul style="list-style-type: none"> <li>◦ None</li> </ul>	<ul style="list-style-type: none"> <li>◦ 9% basic pay-pre-1984 members &amp; special participant members)</li> <li>◦ 5.7% social security</li> <li>◦ 3.5% basic plan-post 1983 members and special participant members</li> </ul> <p>Once social security maximum contribution reached in a year (in 1985 5.7% of first \$39.600 basic pay), 5.7% of amounts over maximum base go to basic plan.</p>	

Stevens Proposal  
Thrift Savings Plan

Contributions

- ° In any fiscal year, participant may contribute any amount not exceeding 10 percent of annual rate of basic pay.
- ° Employing Agency shall contribute an amount equal to twice <sup>20%</sup> ~~2%~~ portion of the amount of participant contribution as does not exceed 4 percent of gross pay.

Tax Deferral

- ° Amounts contributed by employee and employer to the Thrift Savings Fund are not included in gross income for income tax purposes.

CIA Retirement System  
Requirements

- ° Plan proposed to include a system for employees to contribute voluntarily additional amounts of money to their retirement programs. A contribution to be matched at 50 percent by the Agency up to a limit of 6 percent of employees base salary.
- ° Provisions to parallel the 401(k) plans available in industry or as may be passed by Congress as part of thrift plan.

Comments

- ° The Stevens Thrift Savings Plan is designed to attempt to give monetary strength in support of a weak basic supplemental retirement plan.
- ° CIA's Retirement System requirements opt for a strong basic supplemental plan.
- ° Voluntary Thrift Savings Plans will be available and encouraged but not central in the broader retirement program.
- ° Tax-Deferral provisions are ~~likely~~ <sup>likely</sup> highly desirable.



CIVIL SERVICE PENSION REFORM ACT OF 1985  
(REP. STEVENS BILL)

SPECIAL

- ° Age 55 w/30 Service
- ° Age 62 w/10 years service  
(Benefits reduced 1/6 th of 1% for each full month under age 62)
- ° Age 55 w/25 years service  
(No reduction for law enforcement officers, fire fighters, air traffic controllers
- ° product of 0.85 percent of average pay (Hi-5 consecutive years) multiplied by the number of total years of service.  
Annuity supplemental provided for under age 62.
- ° annual consumer price index increase minus 2 percentage points.
- ° no mandatory retirement
- ° any age w/25 years service
- ° at least age 50 w/20 years  
(Benefits reduced 1/6 th of 1% for each full month under 62)

High-5 Average Salary

1.3% (?)

5.7%

Voluntary (Up to 10% of basic pay.) Government matches twice the contribution of the participant not to exceed 8% of annual rate of basic pay.